

Report
of the
Examination of
Wisconsin Mutual Insurance Company
Madison, Wisconsin
As of December 31, 2003

TABLE OF CONTENTS

| | Page |
|--|------|
| I. INTRODUCTION | 1 |
| II. HISTORY AND PLAN OF OPERATION | 3 |
| III. MANAGEMENT AND CONTROL | 4 |
| IV. REINSURANCE | 6 |
| V. FINANCIAL DATA | 10 |
| VI. SUMMARY OF EXAMINATION RESULTS | 20 |
| VII. CONCLUSION..... | 22 |
| VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS..... | 23 |
| IX. ACKNOWLEDGMENT | 24 |



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

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October 15, 2004

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Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

WISCONSIN MUTUAL INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin Mutual Insurance Company ("WMIC" or "the company") was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special

attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1903 as Wisconsin Tornado, Cyclone or Hurricane Mutual Association. An amendment to the articles of incorporation as of September 16, 1946, changed the name to Wisconsin Mutual Insurance Company.

The company has been the acquiring party in several mergers during its history. The company absorbed all of the assets and assumed all of the liabilities of the following companies:

- Capital Mutual Insurance Company, an affiliate, effective January 1, 1982.
- Wisconsin State Mutual Insurance Company, effective December 1, 1982.
- Baraboo Mutual Insurance Company, effective December 31, 1998.

Wisconsin is the only state in which the company is currently licensed. The major products marketed by the company include auto physical damage, private passenger auto liability and homeowner's multi-peril. The major products are marketed through 1,052 independent agents representing over 181 agencies. In addition, since January 1992, the company owns an agency which services and sells a small portion of business directly on behalf of the company through the department entitled "Wisconsin Insurance Services."

The following table is a summary of the net insurance premiums written by the company in 2003. The growth of the company is discussed in the Financial Data section of this report.

| Line of Business | Direct Premium | Reinsurance Assumed | Reinsurance Ceded | Net Premium |
|----------------------------------|---------------------|------------------------|----------------------|---------------------|
| Fire | \$ 651,618 | \$ | \$ 81,844 | \$ 569,774 |
| Allied lines | 251,339 | | 31,557 | 219,782 |
| Farmowners multiple peril | 1,133,167 | | 139,154 | 994,013 |
| Homeowners multiple peril | 10,638,515 | | 1,183,198 | 9,455,317 |
| Commercial multiple peril | 922,164 | | 123,165 | 798,999 |
| Inland marine | 865,108 | | 116,717 | 748,391 |
| Other liability - occurrence | 363,446 | | 330,347 | 33,099 |
| Private passenger auto liability | 19,036,981 | | 1,614,476 | 17,422,505 |
| Commercial auto liability | 445,899 | | 49,616 | 396,283 |
| Auto physical damage | <u>19,861,416</u> | <u></u> | <u>789,629</u> | <u>19,071,787</u> |
| Total All Lines | <u>\$54,169,653</u> | <u>\$</u> | <u>\$4,459,703</u> | <u>\$49,709,950</u> |

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive \$600 per quarter and an additional \$600 per board meeting for serving on the board.

Currently the board of directors consists of the following persons:

| Name and Residence | Principal Occupation | Term Expires |
|---|---|--------------|
| Richard Bernard Johnson Madison, WI | Realtor, First Realty Group | 2007 |
| Daniel Andrew Keyes Madison, WI | President/Chairman, WMIC | 2005 |
| Rick LeRoy Lewison Baraboo, WI | President, Don Rick Insurance Agency | 2007 |
| Donald Edward Payne MacLeish Madison, WI | Retired – Executive VP, Northern Capital Management | 2006 |
| David Edward Mergen Madison, WI | Retired – Chairman, M & I Bank of Madison | 2005 |
| Clarence Arthur Ready Madison, WI | Retired – Secretary, WMIC | 2006 |
| Francis Phillip Schaecher Madison, WI | Retired – Senior VP, Lands End | 2007 |
| Anthony James Skubal Monona, WI | VP/Treasurer, WMIC | 2006 |
| Arthur August Stauffacher Madison, WI | CPA | 2005 |

Officers of the Company

The officers serving at the time of this examination are as follows:

| Name | Office | 2003 Compensation |
|-------------------|--------------|-------------------|
| Daniel A. Keyes | President | \$268,941 |
| Anthony J. Skubal | VP/Treasurer | 144,199 |
| Holly M. Casavant | Secretary | 62,659 |

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

Daniel Keyes, Chair
Richard Johnson
David Mergen
Francis Phillip Schaecher
Arthur Stauffacher

Audit Committee

Arthur Stauffacher, Chair
Richard Johnson
Donald MacLeish
David Mergen
Francis Phillip Schaecher

IV. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Ceding Contracts

Nonaffiliated Ceding Contracts

1. Type: First Property Catastrophe Excess of Loss

Reinsurer: Arch Reinsurance (20%)
Dorinco Reinsurance Company (10%)
PXRE Reinsurance LTD Bermuda (20%)
Underwriters at Lloyds (50%)

Scope: Business classified by the Reinsured as Property, including the property portion of Multi-Peril and Automobile policies.

Retention: \$750,000 ultimate net loss each loss occurrence. The Reinsured shall retain the amount of losses otherwise recoverable hereunder during the Agreement year that is equal to \$250,000.

Coverage: \$750,000 ultimate net loss each loss occurrence excess of \$750,000 ultimate net loss each loss occurrence. Occurrence has to involve two (or more) claimants that are insured by WMIC.

Premium: Rate: 1.50% of Net Subject Earned Premium

Effective date: January 1, 2004, through January 1, 2005
2. Type: Second Property Excess of Loss

Reinsurer: Arch Reinsurance (20%)
MAPFRE Reinsurance (5%)
Odyssey America Reinsurance (10%)
QBE Reinsurance (5%)
Montpelier Reinsurance (15%)
Underwriters of Lloyds (45%)

Scope: Business classified by the Reinsured as Property, including the property portion of Multi-Peril and Automobile policies.

Retention: \$1,500,000 ultimate net loss each loss occurrence.

Coverage: \$2,500,000 ultimate net loss each loss occurrence excess of \$1,500,000 ultimate net loss each loss occurrence. Occurrence has to involve two (or more) claimants that are insured by WMIC.

Premium: Rate: 1.41% of the Net Subject Earned Premium

- Effective date: January 1, 2004, through January 1, 2005
3. Type: Third Property Catastrophe Excess of Loss
- Reinsurer: Arch Reinsurance (20%)
 MAPFRE Reinsurance (5%)
 Odyssey America Reinsurance (5%)
 QBE Reinsurance (5%)
 Hannover Reinsurance Bermuda (10%)
 Montpelier Reinsurance Limited Bermuda (10%)
 Underwriters of Lloyds (45%)
- Scope: Business classified by the Reinsured as Property, including the property portion of Multi-Peril and Automobile policies.
- Retention: \$4,000,000 ultimate net loss each loss occurrence
- Coverage: \$9,000,000 ultimate net loss each loss occurrence excess of \$4,000,000 ultimate net loss each loss occurrence. Occurrence has to involve two (or more) claimants that are insured by WMIC.
- Premium: Rate: 1.26% of Net Subject Earned Premium
- Effective date: January 1, 2004, through January 1, 2005
4. Type: Property Facultative Reinsurance
- Reinsurer: Wellington Underwriting Incorporated
- Scope: Business classified by the Reinsured as Property
- Retention: \$1,000,000 per occurrence
- Coverage: \$1,000,000 ultimate net loss each loss occurrence in excess of \$1,000,000 ultimate net loss each loss occurrence.
- Premium: \$9,000 net
5. Type: Property Facultative Reinsurance
- Reinsurer: General Reinsurance Corporation
- Scope: Reinsured may cede the upper or shared layers of property and casualty excess of loss risks on a semiautomatic facultative basis.
- Retention: The retention may vary on a risk-by-risk basis.
- Coverage: The reinsurer's participation on the upper layer excess of loss risks assumed varies on a risk-by-risk basis.
- Premium: Reinsurance premiums are determined on a risk-by-risk basis, but are proportional to other participants in the same excess of loss layer.

6. Type: Multi-Line Excess of Loss
- Reinsurers: Platinum Underwriters Reinsurance, Inc. (50%)
GE Reinsurance Corporation (30%)
Dorinco Reinsurance (20%)
- Scope: Business classified by the Reinsured as Property and/or Casualty.
- Retention: Casualty Business: \$125,000 per occurrence
Property Business: \$125,000 per risk
- Coverage: Property:
\$875,000 ultimate net loss each risk, each occurrence, excess of \$125,000 ultimate net loss each risk, each occurrence. A Property per occurrence limit of \$1,750,000 shall apply.
- Casualty:
\$875,000 ultimate net loss each loss occurrence in excess of \$125,000 ultimate net loss each loss occurrence.
- Property and Casualty:
\$125,000 ultimate net loss each occurrence in excess of \$125,000 ultimate net loss each occurrence.
- Premium: Rate: 12% to the Gross Subject Written Premium
- Commission: 40% on subject written premiums ceded
- Effective Date: January 1, 2004, to January 1, 2005
- Termination: Agreement shall continue in force until terminated by either party giving the other ninety (90) days notice prior to any January 1st.
7. Type: Casualty Excess of Loss
- Reinsurers: Platinum Underwriters Reinsurance, Inc. (50%)
GE Reinsurance Corporation (30%)
Dorinco Reinsurance (20%)
- Scope: Business classified by the Reinsured as Casualty.
- Retention: \$1,000,000 ultimate net loss each loss occurrence
- Coverage: \$1,000,000 ultimate net loss each loss occurrence in excess of \$1,000,000 ultimate net loss each loss occurrence.
- Premium: Rate: .25% Gross Subject Written Premium
- Effective Date: January 1, 2004, to January 1, 2005

Termination: Agreement shall continue in force until terminated by either party giving the other ninety (90) days notice prior to any January 1st.

8. Type: Umbrella Quota Share

Reinsurers: Berkley Insurance Company

Scope: Business classified by the reassured as personal and farm umbrella liability.

Quota Share Participation: 95% of the first \$1,000,000 policy limits.
100% of limits above \$1,000,000, subject to a maximum \$4,000,000 additional limit.

Premium: The reinsurer shall receive their proportionate share of all premium for policies ceded hereunder, less a 27% ceding commission.

Effective Date: January 1, 2003

Termination: Agreement shall continue in force until terminated by either party giving the other ninety (90) days notice prior to any January 1st.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Wisconsin Mutual Insurance Company
Assets
As of December 31, 2003

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|--|---------------------|-------------------------------|------------------------------------|
| Bonds | \$51,083,341 | \$ | \$51,083,341 |
| Stocks: | 2,568,579 | | 2,568,579 |
| Preferred stocks | 329,956 | | 329,956 |
| Common stocks | | | |
| Real estate: | | | |
| Occupied by the company | 1,958,121 | | 1,958,121 |
| Cash | (672,908) | | (672,908) |
| Short-term investments | 499,820 | | 499,820 |
| Write-ins for invested assets: | | | |
| Independent Agency Loans | 17,872 | 478 | 17,394 |
| Investment income due and accrued | 516,883 | | 516,883 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in course of collection | 396,060 | | 396,060 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 244,560 | | 244,560 |
| Net deferred tax asset | 1,750,422 | 427,548 | 1,322,874 |
| Electronic data processing equipment and software | 70,716 | | 70,716 |
| Furniture and equipment, including health care delivery assets | 289,555 | 289,555 | |
| Other assets nonadmitted: | | | |
| Write-ins for nonadmitted assets: | | | |
| Other Assets Non-admitted | 1,473 | 1,473 | |
| Write-ins for other than invested assets: | | | |
| Prepaid Expenses | <u>431,274</u> | <u>431,274</u> | <u> </u> |
| Total Assets | <u>\$59,485,724</u> | <u>\$1,150,328</u> | <u>\$58,335,396</u> |

Wisconsin Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

| | | |
|---|---------------------|---------------------|
| Losses | | \$19,155,535 |
| Loss adjustment expenses | | 2,968,082 |
| Commissions payable, contingent commissions, and other similar charges | | 1,318,912 |
| Other expenses (excluding taxes, licenses, and fees) | | 423,189 |
| Taxes, licenses, and fees (excluding federal and foreign income taxes) | | 542,403 |
| Current federal and foreign income taxes | | 230,000 |
| Unearned premiums | | 11,403,832 |
| Advance premium | | 891,592 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | 358,000 |
| Remittances and items not allocated | | 81,127 |
| Write-ins for liabilities: | | |
| Independent Agency Loans | | <u>26,276</u> |
| Total Liabilities | | 37,398,948 |
| Unassigned funds (surplus) | <u>\$20,936,448</u> | |
| Surplus as Regards Policyholders | | <u>20,936,448</u> |
| Total Liabilities and Surplus | | <u>\$58,335,396</u> |

Wisconsin Mutual Insurance Company
Summary of Operations
For the Year 2003

Underwriting Income

| | | |
|-----------------|--|--------------|
| Premiums earned | | \$48,612,903 |
|-----------------|--|--------------|

Deductions:

| | | |
|--------------------------------------|-------------------|-------------------|
| Losses incurred | \$30,165,102 | |
| Loss expenses incurred | 3,287,494 | |
| Other underwriting expenses incurred | <u>10,648,446</u> | |
| Total underwriting deductions | | <u>44,101,042</u> |
| Net underwriting gain or (loss) | | 4,511,861 |

Investment Income

| | | |
|--|-----------------|-----------|
| Net investment income earned | 1,980,726 | |
| Net realized capital gains or (losses) | <u>(63,967)</u> | |
| Net investment gain or (loss) | | 1,916,759 |

Other Income

| | | |
|--|----------------|----------------|
| Finance and service charges not included in premiums | 277,140 | |
| Write-ins for miscellaneous income: | | |
| Profit on Sale of Other Asset | 1,995 | |
| Miscellaneous Income | <u>(2,750)</u> | |
| Total other income | | <u>276,385</u> |

| | | |
|---|--|------------------|
| Net income (loss) after dividends to policyholders but before federal and foreign income taxes | | 6,705,005 |
| Federal and foreign income taxes incurred | | <u>2,433,453</u> |

| | | |
|-------------------|--|---------------------|
| Net Income [Loss] | | <u>\$ 4,271,552</u> |
|-------------------|--|---------------------|

Wisconsin Mutual Insurance Company
Cash Flow
For the Year 2003

| | | |
|---|------------------|---------------------|
| Premiums collected net of reinsurance | | \$49,647,342 |
| Net investment income | | 1,888,412 |
| Miscellaneous income | | <u>276,385</u> |
| Total | | 51,812,139 |
| Benefit and loss related payments | \$28,013,936 | |
| Commissions, expenses paid, and aggregate write-ins for deductions | 13,323,397 | |
| Federal and foreign income taxes paid (recovered) | <u>2,401,390</u> | |
| Total deductions | | <u>43,738,723</u> |
| Net cash from operations | | 8,073,416 |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | \$16,145,905 | |
| Stocks | 1,107,377 | |
| Miscellaneous proceeds | <u>332,143</u> | |
| Total investment proceeds | | 17,585,425 |
| Cost of investments acquired (long-term only): | | |
| Bonds | 26,650,273 | |
| Stocks | 671,986 | |
| Miscellaneous applications | <u>4</u> | |
| Total investments acquired | | <u>27,322,263</u> |
| Net cash from investments | | (9,736,838) |
| Cash from financing and miscellaneous sources: | | |
| Other cash provided (applied) | <u>(155,751)</u> | |
| Net cash from financing and miscellaneous sources | | <u>(155,751)</u> |
| Reconciliation | | |
| Net change in cash and short-term investments | | (1,819,173) |
| Cash and short-term investments, December 31, 2002 | | <u>1,646,087</u> |
| Cash and short-term investments, December 31, 2003 | | <u>\$ (173,086)</u> |

Wisconsin Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2003

| | | |
|---|--------------|---------------------|
| Assets | | \$58,335,396 |
| Less liabilities | | <u>37,398,948</u> |
| Adjusted surplus | | 20,936,448 |
| Annual premium: | | |
| Lines other than accident and health | \$54,169,653 | |
| Factor | <u>20%</u> | |
| Compulsory surplus (subject to a minimum of \$2 million) | | <u>10,833,930</u> |
| Compulsory surplus excess (or deficit) | | <u>\$10,102,518</u> |
| Adjusted surplus (from above) | | \$20,936,448 |
| Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%) | | <u>14,950,823</u> |
| Security surplus excess (or deficit) | | <u>\$ 5,985,625</u> |

Wisconsin Mutual Insurance Company
Reconciliation and Analysis of Surplus
For the Four-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

| | 2003 | 2002 | 2001 | 2000 |
|---|-----------------------------|-----------------------------|---------------------|-----------------------------|
| Surplus, beginning of year | \$16,020,405 | \$13,406,253 | \$12,214,563 | \$11,831,349 |
| Net income | 4,271,552 | 2,725,893 | 291,849 | 469,694 |
| Net unrealized capital gains or (losses) | 439,083 | (85,035) | (41,182) | (75,918) |
| Change in net deferred income tax | 148,177 | 479,743 | | |
| Change in non-admitted assets | 55,231 | (514,036) | (363,089) | 14,438 |
| Change in provision for reinsurance | 2,000 | 7,587 | 19,413 | (25,000) |
| Cumulative effect of changes in accounting principles | <u> </u> | <u> </u> | <u>1,284,699</u> | <u> </u> |
| Surplus, end of year | <u>\$20,936,448</u> | <u>\$16,020,405</u> | <u>\$13,406,253</u> | <u>\$12,214,563</u> |

Wisconsin Mutual Insurance Company
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

| | Ratio | 2003 | 2002 | 2001 | 2000 |
|-----|---|-------------|-------------|-------------|-------------|
| #1 | Gross Premium to Surplus | 259% | 302% | 276% | 277% |
| #2 | Net Premium to Surplus | 237 | 272 | 244 | 248 |
| #3 | Change in Net Writings | 14 | 33* | 8 | 0 |
| #4 | Surplus Aid to Surplus | 2 | 3 | 3 | 2 |
| #5 | Two-Year Overall Operating Ratio | 88 | 94 | 100* | 97 |
| #6 | Investment Yield | 3.9* | 5 | 5.5 | 5.7 |
| #7 | Change in Surplus | 29 | 21 | 10 | 2 |
| #8 | Liabilities to Liquid Assets | 69 | 73 | 71 | 70 |
| #9 | Agents' Balances to Surplus | 2 | 2 | 3 | 0 |
| #10 | One-Year Reserve | -5 | -5 | -1 | -7 |
| #11 | Development to Surplus | | | | |
| #11 | Two-Year Reserve Development to Surplus | -4 | -4 | -8 | -10 |
| #12 | Estimated Current Reserve Deficiency to Surplus | 8 | 13 | -1 | -12 |

Ratio Number 3, Change in Net Writings, measures the increase or decrease in reported net premium written as a percentage of net premiums written in the prior year. For 2002 the company reported significant increases in net premium written, due to a combination of growth and rate increases, causing an exceptional IRIS ratio.

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional result in 2001 was due to some unusually severe storms resulting in numerous claims in 2001.

Ratio number 6, Investment Yield, measures net investment income as a percentage of the average amount of cash and invested assets during the year. The exceptional result in 2003 reflects the relatively low investment yield environment that prevailed in the financial market.

Growth of Wisconsin Mutual Insurance Company

| Year | Admitted Assets | Liabilities | Surplus As Regards Policyholders | Net Income |
|------|-----------------|--------------|----------------------------------|-------------|
| 2003 | \$58,335,396 | \$37,398,948 | \$20,936,448 | \$4,271,552 |
| 2002 | 49,342,458 | 33,322,052 | 16,020,407 | 2,725,893 |
| 2001 | 40,160,835 | 26,754,580 | 13,406,255 | 291,848 |
| 2000 | 36,776,221 | 24,561,656 | 12,214,564 | 469,694 |
| 1999 | 35,796,223 | 23,964,873 | 11,831,349 | 1,712,892 |

| Year | Gross Premium Written | Net Premium Written | Premium Earned | Loss And LAE Ratio | Expense Ratio | Combined Ratio |
|------|-----------------------|---------------------|----------------|--------------------|---------------|----------------|
| 2003 | \$54,169,653 | \$49,709,950 | \$48,612,903 | 68.8% | 20.9% | 89.7% |
| 2002 | 48,366,213 | 43,575,118 | 41,346,496 | 74.8 | 20.2 | 95.0 |
| 2001 | 36,936,113 | 32,724,997 | 31,776,493 | 86.7 | 18.9 | 105.6 |
| 2000 | 33,876,275 | 30,272,846 | 30,159,025 | 87.8 | 19.2 | 107.0 |
| 1999 | 32,930,370 | 30,170,444 | 29,534,202 | 78.1 | 20.5 | 98.6 |

During the period under examination, WMIC's admitted assets increased by 63%, net premium written increased by 65%, and surplus increased 77%. The significant increase in premium by the company in the prior two years reflects the rate increase within the market, the company's acquisition of new business and the withdrawal of competitor insurers from the market. The company's expense ratio is low due in part to the use of innovative computer technology, in-house computer programmers, and their Direct Repair Program. The Direct Repair Program saves time for insureds (they do not have to get estimates) and the company (an adjuster does not have to look into the claim) by having preapproved auto body shops across the state. The Direct Repair Program consists of various auto body shops that have been preapproved by the company for services, a listing can be viewed on the company's Internet site at www.wiins.com. The company periodically sends an adjuster to review the body shop's estimates for accuracy. These items help to keep wage costs down by increasing efficiency of the company's staff.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were eight specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Invested Assets—It is recommended that the company update its custodial agreement so that it contains the proper indemnification language as required by the NAIC in the Financial Condition Examiners' Handbook.

Action—Compliance.

2. Invested Assets—It is recommended that the company register its securities with the NAIC's Securities Valuation Office as required by s. Ins 50.20 (1) (b), Wis. Adm. Code.

Action—Compliance.

3. Mortgage Loans—It is recommended that the company correctly list the mortgage loan principal amount received on "Schedule B – Verification Between Years" pursuant to the NAIC Annual Statement Instructions—Property and Casualty.

Action—Compliance.

4. Real Estate—It is recommended that in future annual statements the company correctly report the artwork as a nonadmitted asset in furniture and fixtures as required by the NAIC Annual Statement Instructions—Property and Casualty.

Action—Compliance.

5. Other Expenses—It is recommended that the company properly report commissions payable balances in agents' balances or uncollected premiums as required by the NAIC Annual Statement Instructions—Property and Casualty.

Action—Compliance.

6. Amounts Withheld or Retained by Company for Account of Others—It is recommended that the company report the suspense amounts in Remittances and Items not allocated as required by the NAIC Annual Statement Instructions—Property and Casualty.

Action—Compliance.

7. Electronic Data Processing—It is recommended that the company review the need for various functions assigned to the computer room; and at a minimum, enclose the AS400 in a locked closet or other such secure storage area within the computer room.

Action—Compliance.

8. Disaster Recovery Plan—It is recommended that the company develop definite disaster recovery procedures for restoring the AS400 system in the event of a disaster, including a realistic timeline for obtaining a back-up unit.

Action—Compliance.

Summary of Current Examination Results

Information Systems

The company's appointed agencies have access to certain policy and claim information through the company's Web site. For authorization to use the Web site, the agents are required to use an ID and password. There is no requirement for the agent to change his/her password; also the accounts are not disabled after a series of incorrect attempts. This exposes the company to a greater potential that the agent account may be compromised. Disabling the account after a series of incorrect attempts would reduce this risk. In addition, requiring the agents to periodically change their passwords would reduce the company's long-term exposure in the event the password is compromised. It is recommended that the company improve the security over password access to the company's network.

Unclaimed Property

The examiner's review noted that there were checks that had been outstanding for five years or more. These are escheatable funds, and should have been remitted to the custody of the state as unclaimed property. It is recommended that the company file unclaimed property reports in accordance with s. 177.03 (3), Wis. Stat.

Reinsurance

The company does not have a formal reinsurance intermediary contract with their reinsurance intermediary in accordance with s. Ins 47.03, Wis. Adm. Code. It is recommended that the company execute a formal reinsurance intermediary contract that complies with s. Ins 47.03, Wis. Adm. Code.

VII. CONCLUSION

Wisconsin Mutual Insurance Company's financial statements as of December 31, 2003, reported total admitted assets of \$58,335,396, total liabilities of \$37,398,948, and policyholders' capital and surplus of \$20,936,448. No reclassifications or adjustments were made to surplus as a result of the examination.

The company's financial performance since the prior examination reflects the rate increase within the market, the company's acquisition of new business and competing companies exiting the market. Admitted assets, surplus, and gross and net premium income have increased each year under the examination. The company reported a net income in each of the years under examination.

The examination verified the financial condition of the company as reported in its annual statement. The company complied with the prior examination recommendations. The current examination resulted in three recommendations as summarized on the following page.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Information Systems—It is recommended that the company improve the security over password access to the company's network.
2. Page 21 - Unclaimed Property—It is recommended that the company file unclaimed property reports in accordance with s. 177.03 (3), Wis. Stat.
3. Page 21 - Reinsurance—It is recommended that the company execute a formal reinsurance intermediary contract that complies with s. Ins 47.03, Wis. Adm. Code.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

| Name | Title |
|------------------|---------------------|
| Andrew Fell | Insurance Examiner |
| DuWayne Kottwitz | Insurance Examiner |
| Randy Milquet | Examiner - Advanced |

Respectfully submitted,

Sarah M. Haeft
Examiner-in-Charge